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C O N F I D E N T I A L SECTION 01 OF 02 MANAMA 000408

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STATE FOR NEA/ARP, EEB/TRA/AN, EEB/CBA  
DOT FOR OST  
COMMERCE FOR 4520/ITA/MAC/ONE/THOFFMAN  
ABU DHABI FAA FOR PBARTKO

E.O. 12958: DECL: 10/25/2015

TAGS: [FAIR](#) [EINV](#) [ETRD](#) [PREL](#) [BA](#) [REGION](#) [ECTRD](#)

SUBJECT: BAHRAIN MAJORITY GULF AIR STAKE TO CLEAR THE WAY  
FOR MAJOR RESTRUCTURING

REF: A. MUSCAT 378

[¶](#)B. MANAMA 338

Classified By: Ambassador William T. Monroe, Reasons 1.4 (b) and (d).

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SUMMARY  
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[¶](#)1. (C) The GOB is set to increase its stake in Gulf Air from fifty to eighty percent, with possible plans to fully acquire and privatize the carrier. However, Finance Minister Shaikh Ahmed bin Hamad Al Khalifa suspects that Gulf Air partner Oman may have lingering reservations about ceding joint ownership of the airline and states that GOB officials will seek to accelerate restructuring arrangements in a visit to Oman. A majority interest in Gulf Air would give the GOB, and by extension new Gulf Air CEO Andre Dose, a free hand to implement badly-needed restructuring, including cuts to staff, routes, and aircraft. Dose confirms plans to downsize to an Airbus fleet, but holds open the possibility for future opportunities for Boeing. Dose faces a tough challenge in trying to turn troubled Gulf Air around. Initial impressions are that he is bringing a much-needed shot of energy and management to Gulf Air, but the next 6-12 months will be crucial in determining if he can succeed.

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BAHRAIN TO TAKE OVER - CREW MAY GET SOFT LANDING  
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[¶](#)2. (U) Local press reports May 1 quoted Shaikh Ahmed as advising the Parliament's upper house Shura Council that the GOB has plans to purchase Gulf Air outright and privatize it. The GOB would initially acquire an additional thirty percent stake from the Sultanate of Oman, bringing its interest to eighty percent. "We are currently working to get an eighty percent share of the company, with the possibility of owning it all, through our national holding company, Mumtalakat, so we can take proper decisions to implement our comprehensive strategic plans." He added that Mumtalakat officials would meet with officials in Oman and seek to accelerate Gulf Air's capital restructuring.

[¶](#)3. (C) Shaikh Ahmed told the Ambassador April 5 (Ref. B) that he suspected that Omani officials were dragging their feet on finalizing the agreed thirty percent share transfer over hesitancy at losing key operations and associated jobs. On the Bahraini side, the biggest local concern has been Gulf

Air's reported plans to reduce its workforce by 1,000, although it is expected that the majority of these will be expatriates. However, the Gulf Daily News May 1 pointed to one apparent source of relief. Abu Dhabi-based airline Etihad, now headed by former Gulf Air CEO James Hogan, has reportedly offered to take all captains, first officers, and cabin crew who lose their jobs as the result of Gulf Air's downsizing measures.

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ROUTES TRIMMED  
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¶4. (C) New Gulf Air CEO Andre Dose told the Ambassador April 22 that "a lot of things are broken" at Gulf Air, "including the basics." He said the carrier's condition is worse than he had expected when he accepted leadership of the airline. Dose said Gulf Air's on-time rating currently stands below fifty percent.

¶5. (C) Dose questioned whether Oman has financial resources sufficient to fund Oman Air over the long-term, particularly in view of that airline's reliance on the less lucrative leisure travel segment (Ref. A). He remarked that several leisure gateways had recently proven costly to Gulf Air, which had lost over BD 18 million (approximately USD 47.9 million) annually on service to Sydney. He added that to "stop the bleeding," Gulf Air would discontinue service to Sydney, Jakarta, Dublin, and Johannesburg. Dose said he would keep Frankfurt. He said his vision for Gulf Air is to remake it as a premier regional airline. To that end, he said that beginning July 1, Gulf Air will beef-up regional scheduled service, with twice daily service to many destinations. But Dose also said he was intrigued by the possibility of offering direct Bahrain-US service.

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¶6. (C) Dose expressed frustration with Bahrain Airport Services, which takes care of baggage and other services. He also complained that current landing schedules were limited by current runway resurfacing projects and added that the airport could not support instrument-aided landings in the final 6,000 meters of approach.

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FLEET REDUCED  
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¶7. (C) Dose said that another problem is the deteriorating condition of the cabins in Gulf Air's fleet. Dose stated that the entire fleet would be undergoing a "get well program," with each aircraft scheduled for a two-week refurbishment and cabin retro-fit in Zurich over the next year.

¶8. (C) Dose said that it was necessary to downsize Gulf Air's fleet in the short-term. Gulf Air's reported losses of USD 1 million per day were actually closer to USD 2 million per day when interest and service fees are taken into account. Airbus' "family concept" on aircraft met Gulf Air's immediate needs. Although Gulf Air's downsized 28-aircraft fleet would be made up of A-330s and A-340s in the short-term, the airline would eventually need to replace them. He said that in the short term he would probably keep a couple of leased Boeing 767s to serve as back-ups in the event of mechanical problems with the existing fleet. This would help overcome the current situation, where the loss of one aircraft in Gulf Air's overstretched fleet played havoc with the whole day's schedule.

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OPEN TO BOEING IN FUTURE  
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¶9. (SBU) The Ambassador urged that Dose consider Boeing as he

looked at longer-term planning and noted that Boeing representatives planned to visit him soon. Dose said that, having been educated in New Orleans, he had once felt an affinity for Boeing, but that while heading SwissAir in 2001-2002, he had been disappointed by Boeing's handling of a bid against Airbus. However, Dose said that he was "extremely open" to Boeing as a future aircraft solution. "I hear they are much better now on the customer side. At the end of the day, it's about seat-mile cost."

¶10. (SBU) Dose said he had also "done a lot of thinking on cargo" and said he would consider starting up a dedicated cargo service if he could find the right commercial partner. This, he said, would allow Gulf Air to keep "a couple of the leased Boeing 767s.

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COMMENT  
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¶11. (C) The Ambassador told Dose he had two interests in looking at Gulf Air. First, he hoped that Gulf Air would look at future purchases of Boeing. Second, in selling Bahrain as a place from which and in which American companies could come to do business, it was important that Bahrain offer the full range of top quality services, including a good regional airline. In recent years, the Ambassador noted, Gulf Air had slipped in reliability and consumer confidence. As the new CEO, Andre Dose has a huge challenge to turn Gulf Air around. Initial impressions are that he is bringing a much-needed shot of energy and management to the troubled airline. He is also getting strong support from Minister of Finance Shaikh Ahmed, the chairman of Gulf Air's holding company Mumtalakat. The next 6-12 months will be crucial in determining if the new team can restore Gulf Air to its former position as a premier airline in the region.

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MONROE